

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

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August 12, 2010

Elaine M. Howle, CPA
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

**RE: Preparedness Audit of CSD for Administration of Recovery Act Programs,
Six Month Update**

Dear Ms. Howle:

The Department of Community Services and Development (CSD) is pleased to report substantive progress in the six months since the above referenced audit was conducted, both in respect to the implementation of the American Recovery and Reinvestment Act (ARRA) programs and in addressing the findings in your report. This process provided the Department with critical guidance to improve the efficiency and effectiveness of our administration of the ARRA programs, and of the Department as a whole.

**UPDATE OF THE STATUS OF DOE ARRA WEATHERIZATION
EFFORTS**

Agency Contracts

Since the BSA's June 9th interim review¹, CSD executed the final contracts for the following ARRA service areas: San Mateo, Los Angeles Service Area A, San Francisco Bay Area, Alameda and Alpine / El Dorado counties. All contracts are now fully executed.

Production Milestones

Statewide monthly production continues to increase with June and July representing the highest producing months of 2,459 and 2,753 weatherized units/per month, respectively. The attached Exhibit A, the *DOE ARRA Production Progress Report* shows as of July 31, 2010, a total of 11,432 units have been weatherized, representing 105.2% of CSD's

¹ Joint Legislative Audit Committee Informational Hearing American Recovery and Reinvestment Act of 2009, California State Auditor Testimony Attachment June 9, 2010

projected goal of 10,869 thru July 2010. The Department anticipates monthly production of units weatherized to continue to range between 2,400 - 2,700 units/per month. Current production indicates we are on pace to exceed the 12,945 unit goal by September 30th.

The Department continues to aggressively monitor unit production. Of the 41 contracted providers, 58% are at or above projected production targets, 12% of the providers are within 30%-75% of their projected goal and only 25% are within 10% of their production goal. This last group includes five agencies whose agreements were among those only recently executed in June.

To boost production, CSD has emphasized partnerships with entities representing affordable multi-family housing properties. CSD recently conducted two pilot projects to identify needed modifications to existing program requirements necessary to accommodate recent federal rule changes.² Based on the experience of those pilot projects, CSD issued official guidance to ARRA providers, "CSD WAP ARRA No. 13, *Multi-Family Property – Affordable Housing Weatherization Policies and Procedures*" attached as Exhibit B. CSD's guidance outlines the changes to program rules and streamlined procedures for weatherization services delivered to qualified multi-family properties.

Through CSD's collaborative partnership with the U.S. Department of Housing and Urban Development (HUD) and the California Housing Partnership Coalition, focused outreach is underway targeting multi-family affordable housing properties interested in weatherization services. This effort includes hosting joint regional workshops to educate local multi-family housing providers, and specifically subsidized multi-family housing providers, on the opportunities for energy efficiency improvement services offered under the DOE ARRA program. The workshops will provide the necessary link between local DOE ARRA services providers and multi-family housing providers. The September 2010 regional workshops schedule is as follows:

City	Date	Workshop Location
Sacramento	September 8	Community Resource Project
Fresno	September 13	Fresno County Economic Opportunities
San Diego	September 27	Metropolitan Area Advisory Committee
Inland Empire	September 28	TBD
Los Angeles	September 29	HUD – Los Angeles Field Office

DOE ARRA Compliance Monitoring and Performance Requirements

CSD's DOE ARRA State Plan requires that monitoring consist of third-party inspections,

² U.S. Department of Energy Weatherization Program Notice 10-15

annual onsite program visits, quarterly desk reviews, fiscal monitoring, and visits as needed to respond to special issues. As recommended by the BSA, CSD has developed a comprehensive monitoring schedule. The *Energy Services Monthly Monitoring Schedule 2010*, attached as Exhibit C is CSD's guide for carrying out the monitoring and inspection protocol set forth in the DOE-approved State Plan.

Key monitoring actions completed and/r scheduled are as follows:

Onsite program monitoring:

- 17 DOE ARRA Performance Visits – conducted by CSD monitoring staff and in some cases (5), executive management, of underperforming agencies. The visits target potential causes of performance deficiencies and identify technical assistance and other resources needed to improve program operations and/or accelerate local program implementation efforts. Corrective plans/strategies are then developed outlining the actions necessary to improve and resolve noted performance deficiencies.
- 6 DOE Davis-Bacon Compliance Visits – conducted by CSD monitoring staff to ensure agency compliance with ARRA Davis Bacon requirements.
- 7 DOE Comprehensive Monitoring Visits – conducted by CSD monitoring staff to ensure agency compliance with DOE ARRA administrative and programmatic requirements.

Third-party inspections: To date, a total of 325 quality assurance inspections at 15 agencies have been performed throughout the State representing approximately 30% of the 647 targeted inspections scheduled for completion by September 30th. (See Exhibit D - *ARRA Quality Assurance Inspection Schedule*).

As noted in BSA's June 9th interim review of CSD progress,³ DOE identified concerns with the Department's use of Richard Heath and Associates for third-party Quality Assurance Reviews of ARRA weatherized units. On April 23rd, CSD received direction from DOE to secure an independent third-party for on-site Quality Assurance Reviews as soon as practicable.

CSD is working with the Department of General Services to perform the third-party inspections. In addition, CSD recently issued a Request for Interest (RFI) solicitation to assess potential bidder interest in areas of the state where DGS inspectors may not be available or would be insufficient to handle the workload of inspections. Responses to the RFI are currently being reviewed. CSD anticipates releasing an RFP to select and contract with additional QA inspectors in early September.

³ Joint Legislative Audit Committee Informational Hearing American Recovery and Reinvestment Act of 2009, California State Auditor Testimony Attachment June 9, 2010

DOE recognizes the various challenges and state requirements for procuring third-party inspection services and has approved the continued use of RHA to perform QA inspections thru December 31, 2010 provided that CSD moves to establish an internal oversight function that would oversee the work of its QA inspectors, ensuring their work meets the DOE quality requirements, and that technical data resides at CSD and not with a contractor(s) selected.

Fiscal monitoring: CSD executed a contract with the Department of Finance, attached as Exhibit E, to complete the annual reviews of the latest single-wide audits for compliance with A-133. This agreement greatly expands the capacity of CSD's Audit Services unit in completing these reviews.

Advance Payment Practices

DOE agreed with BSA's finding that CSD's practice for the issuance and repayment of contract advances was not compliant with federal rule: 10 CFR 600.122 and 31 C.F.R. Part 205. CSD is in the process of developing contract language that ensures that how CSD handles future advances fully complies with federal rules.

Energy Audit / Weatherization Measure Approval

On June 16th, CSD submitted its Energy Audit and Priority Measure request to DOE for approval. While DOE's written approval is pending, CSD has been notified that all but one measure was approved. These new measures will also be included in the contract amendment mentioned above. CSD plans to send out the contract amendment to its agencies by the end of August.

IMPROVED CSBG ARRA MONITORING PRACTICES

As recommended by the BSA, CSD field staff is using the new "*CSBG ARRA Monitoring Tool*" for all onsite monitoring visits. As of July 31st, CSD field staff completed nearly half (20) onsite reviews of the forty-three monitoring visits scheduled between now and September 30, 2010. Attached as Exhibit F, is the *2010 CSBG Monitoring Schedule*. An automated tracking tool has been developed to capture all relevant monitoring data.

This SharePoint-based tracking tool has been provides the capability to generate monthly status reports. The reports developed to date are as follows:

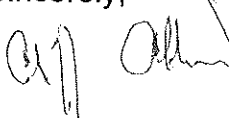
- Monitoring Findings of agencies visited to date
- Month ahead report of site visits to be conducted
- Month ahead report of agencies due to submit response to monitoring findings.
- ARRA CSBG and CSBG Expenditure tracking

Department Administrative Procedures

CSD executed an agreement with Cooperative Personnel Services (CPS) to assess the Department's needs and to assist in developing procedures, desk manuals and similar materials. CSD's work with CPS to-date is outlined in the *CPS Progress Report* attached as Exhibit G.

Department acknowledges and appreciates the value of BSA's guidance and recommendations. We will continue our efforts to improve how we administer and oversee ARRA programs as well as other department operations for the benefit of the low-income families we serve.

Sincerely,



Cliff Allenby
Director

Attached Exhibits:

- A. *DOE ARRA Production Progress Update*
- B. *CSD WAP ARRA No. 13, Multi-Family Property – Affordable Housing Weatherization Policies and Procedures*
- C. *Energy Services Monthly Monitoring Schedule 2010*
- D. *ARRA Quality Assurance Inspection Schedule*
- E. *Department of Finance Contract.*
- F. *2010 CSBG Monitoring Schedule*
- G. *Cooperative Personnel Services Progress Report.*